

FDIC State Profile

Spring 2004

Arkansas

Employment conditions in Arkansas weakened in the fourth quarter 2003.

- Employment growth in Arkansas remains flat in the fourth quarter 2003, from one-year ago, after several quarters of weak job growth.
- A leading indicator of labor market conditions, initial unemployment claims, reinforced this view of labor market weaknesses. Job losses in manufacturing, business services, and construction contributed to the increase in initial unemployment claims. (See Chart 1.)
- Over half of the roughly 6,200 manufacturing jobs lost in fourth quarter 2003 occurred in the areas of primary and fabricated metal production, furniture, and food processing. (See Chart 2.)
- A recent national monthly survey of manufacturing conditions suggests overall improvement is underway, but employment conditions are likely to remain weak for the near term.¹
- Employment conditions generally improved in the metro areas, because of less exposure to problems in the manufacturing sector. (See Table 1.)

Farm income generally improved during 2003.

- Favorable production levels, strengthening commodity prices, and a weak U.S. dollar began to benefit farm income in 2003.²
- In contrast to generally favorable farm trends, catfish producers have struggled for several years with prices well below the 10-year average of \$0.74 per pound. A slight improvement in prices in late 2003 might signal the end of the three-year price slump.³

Consumer loan delinquencies remain elevated, but overall credit quality improves.

¹The Institute for Supply Management monthly ISM index rose in January 2003 to 63.6, the ninth monthly increase above 50, which represents expansion.

²The agriculture sector contributed about \$64 billion to Arkansas gross product in 1999 (most current available) and accounted for more than one of every five jobs. Poultry production and processing provided 16 percent of the state's agricultural jobs.

³The average price for catfish rose above \$0.60 per pound in late 2003 for the first time in three years.

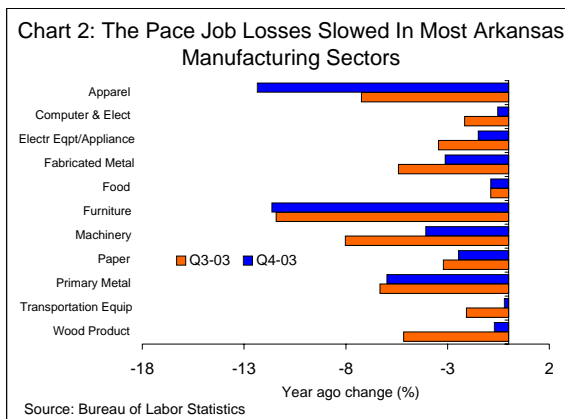
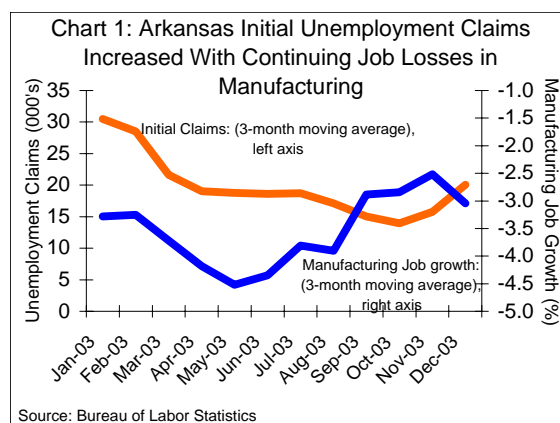


Table 1: Most Metro Areas Have Lower Unemployment Rates Than the State

MSA	Q3-03	Q4-03
Arkansas	5.6	5.9
Fayetteville	2.8	2.6
Little Rock	4.7	4.5
Ft. Smith	4.8	4.7
Jonesboro	4.7	4.7
Texarkana	5.4	4.8
Pine Bluff	8.5	7.7

Source: Bureau of Labor Statistics

State Profile

- Among the 50 states, insured institutions in Arkansas ranked fifth highest for the median reported consumer past-due loan levels at year-end 2003. (See Table 2.) The state also ranked high in per capita bankruptcy filings.⁴
- Overall improvement in credit quality was reported in fourth quarter 2003 by community institutions in Arkansas. The median past-due and non-accrual loan ratio stood at 2.83 percent in fourth quarter, on par with the previous quarter and down 29 basis points from one-year ago. The ratio declined across most business lines and lending categories. (See Chart 3.)

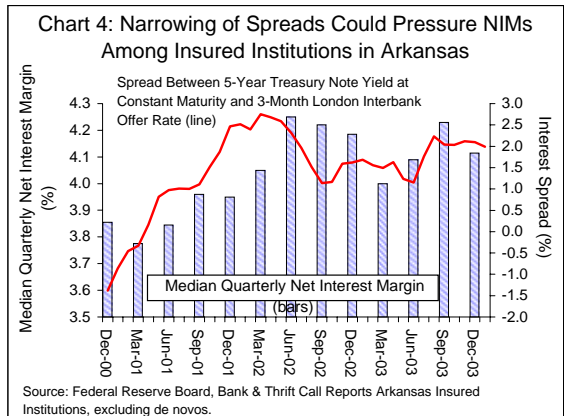
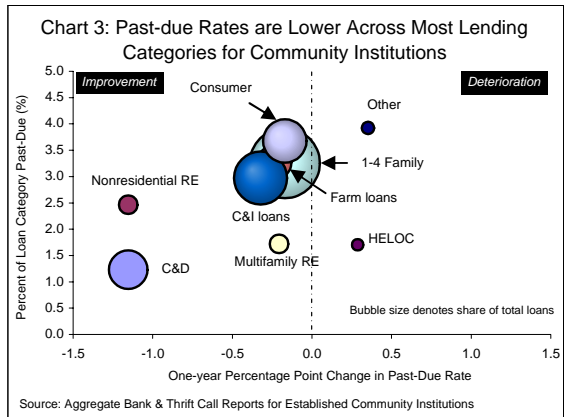
Pressure continued on interest margins, but loan provisions fell during the fourth quarter.

- The median quarterly return on asset (ROA) for insured institutions in Arkansas was 1.01 percent for the fourth quarter 2003, down from the prior quarter and relatively unchanged from one-year ago.
- The median quarterly net interest margin (NIM) was 4.12 percent in fourth quarter 2003, down 12 basis points and 7 basis points from the prior quarter and one-year ago, respectively. Many institutions benefited from lower provisions for loan losses, somewhat offsetting NIM compression.
- Weakness in ROAs and NIMs resulted from the weak economy and substantial competition among insured institutions and other entities, causing a decline in loan levels and increased pressure on loan pricing.⁵
- The increased movement of excess funds into generally lower yielding securities contributed to the decline in key measures of earnings and may have increased interest rate risk for some institutions.
- As the national economy gains momentum, interest rates are expected to increase. A rise in interest rates, particularly if accompanied by a shrinking of current high spreads between short-term and long-term rates could place significant downward pressure on NIMs, suggesting effective asset and liability management will be of increasing importance for insured institution managers. (See Chart 4.)

Table 2: Consumer Credit Quality Remains A Major Concern for Banks and Thrifts in Arkansas

State	Consumer past-due loans to total consumer loans (median,%)			4Q03 National Rank
	4Q02	3Q03	4Q03	
Arkansas	3.45	3.00	3.24	5
Louisiana	3.14	2.79	2.92	8
Mississippi	4.51	3.84	3.80	1
Tennessee	4.10	3.23	3.44	2
Area	3.64	3.12	3.34	
Nation	2.40	2.13	2.18	

Source: Bank and Thrift Call Reports; Established community banks only



⁴Third quarter 2003 per capita bankruptcy filings reached 8.7 percent, ranking the state seventh in the nation.

⁵The median loan-to-asset level among insured institutions in Arkansas was 59.1 percent at year-end 2003, down slightly from one quarter earlier and down from 61.7 percent one-year ago. The ratio peaked at 64.8 percent in third quarter 2001.

Arkansas at a Glance

General Information	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Institutions (#)	170	177	187	194	205
Total Assets (in thousands)	38,160,006	35,426,930	31,563,614	28,948,888	30,089,532
New Institutions (# < 3 years)	0	3	6	8	12
New Institutions (# < 9 years)	14	16	18	19	23
Capital	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Tier 1 Leverage (median)	9.69	9.34	9.01	9.16	9.25
Asset Quality	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Past-Due and Nonaccrual (median %)	2.83%	3.12%	3.16%	2.95%	2.52%
Past-Due and Nonaccrual >= 5%	32	37	48	34	27
ALLL/Total Loans (median %)	1.45%	1.34%	1.26%	1.15%	1.17%
ALLL/Noncurrent Loans (median multiple)	1.29	1.30	1.19	1.37	1.37
Net Loan Losses/Loans (aggregate)	0.48%	0.51%	0.43%	0.31%	0.27%
Earnings	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Unprofitable Institutions (#)	10	12	16	21	19
Percent Unprofitable	5.88%	6.78%	8.56%	10.82%	9.27%
Return on Assets (median %)	1.10	1.05	0.98	1.03	1.07
25th Percentile	0.82	0.80	0.60	0.64	0.75
Net Interest Margin (median %)	4.14%	4.16%	3.87%	4.00%	4.03%
Yield on Earning Assets (median)	5.99%	6.70%	7.80%	8.13%	7.72%
Cost of Funding Earning Assets (median)	1.84%	2.52%	3.95%	4.24%	3.69%
Provisions to Avg. Assets (median)	0.22%	0.33%	0.26%	0.19%	0.19%
Noninterest Income to Avg. Assets (median)	0.76%	0.73%	0.72%	0.68%	0.64%
Overhead to Avg. Assets (median)	2.83%	2.82%	2.82%	2.83%	2.75%
Liquidity/Sensitivity	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Loans to Deposits (median %)	70.28%	74.05%	76.05%	75.54%	70.23%
Loans to Assets (median %)	59.08%	61.70%	62.99%	63.37%	59.86%
Brokered Deposits (# of Institutions)	40	42	40	50	29
Bro. Deps./Assets (median for above inst.)	3.90%	5.49%	2.80%	3.50%	2.92%
Noncore Funding to Assets (median)	23.93%	24.06%	22.96%	23.10%	21.06%
Core Funding to Assets (median)	63.53%	65.07%	65.58%	65.27%	66.74%
Bank Class	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
State Nonmember	101	105	111	114	119
National	42	42	40	41	49
State Member	20	22	27	30	27
S&L	3	3	3	3	4
Savings Bank	4	5	6	6	6
Stock and Mutual SB	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	124	17,863,525	72.94%	46.81%	
Little Rock-N Little Rock AR	18	5,927,693	10.59%	15.53%	
Fayetteville-Springdale-Rogers AR	12	9,163,741	7.06%	24.01%	
Ft Smith AR-OK	6	1,376,602	3.53%	3.61%	
Jonesboro AR	5	2,109,345	2.94%	5.53%	
Pine Bluff AR	3	1,452,479	1.76%	3.81%	
Memphis TN-AR-MS	2	266,621	1.18%	0.70%	